

# **House of Representatives Education Committee**

## **Options For School Operational / Finance Reform For 2010 And Beyond**

Presented by Donald Sovey, CPA, CFO

February 25, 2010

### **Michigan K-12 Schools Today**

- Highly complex organizations
- Require high level of advanced management skills
- Are under great pressure to produce academic results with financial efficiency
- Work with as many as 8 organized bargaining employee groups

## Michigan K-12 Schools Today

- Built on a Michigan economy of the past that is not coming back
- Need a Legislative Vision for K-12 Education in the Year 2011 and beyond
- Our ability to reform is playing on a national public stage

## Enough Pain To Go Around for All

- 8 consecutive years of painful cuts
- In the absence of relief, cuts this fall will be particularly destructive with serious teacher and support staff layoffs state-wide
- Without reform many effective educational programs will be dismantled in virtually all of Michigan's school districts
- 90 financially bankrupt districts projected

Many Schools Are Successful and **Not** Failing!



### 2009-2010 Sample School Revenue Budget

|                    |                     |     |
|--------------------|---------------------|-----|
| State Aid Formula  | \$ 22,192,555       | 88% |
| State Categoricals | \$ 966,708          | 4%  |
| Other Revenues     | <u>\$ 1,924,524</u> | 8%  |
| Total Revenues     | \$ 25,083,787       |     |

### 2010-2011 Sample Projected School Revenue Budget

|                    |                     |     |
|--------------------|---------------------|-----|
| State Aid Formula  | \$ 20,717,424       | 88% |
| State Categoricals | \$ 966,708          | 4%  |
| Other Revenues     | <u>\$ 1,961,676</u> | 8%  |
| Total Revenues     | \$ 23,645,808       |     |

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### 2009-2010 Sample School Expenditure Budget

|                    |                     |     |
|--------------------|---------------------|-----|
| Salary/Wages       | \$ 13,870,820       | 55% |
| Employee Insurance | \$ 3,151,380        | 13% |
| FICA Expense       | \$ 1,074,116        | 4%  |
| Retirement Expense | \$ 2,338,628        | 9%  |
| All Other Expenses | <u>\$ 4,648,846</u> | 19% |

Total Expenses        \$ 25,083,787

(Majority of area school budgets are not currently balanced)

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### **2010-2011 Sample Projected School Expenditure Budget**

|                    |                     |     |
|--------------------|---------------------|-----|
| Salary/Wages       | \$ 14,070,819       | 55% |
| Employee Insurance | \$ 3,002,675        | 12% |
| FICA Expense       | \$ 1,076,418        | 4%  |
| Retirement Expense | \$ 2,659,385        | 10% |
| All Other Expenses | <u>\$ 4,549,251</u> | 19% |
| Total Expenses     | \$ 25,358,548       |     |

**Projected Shortfall \$(1,712,740)**

### **Revenue History Example**

|         |                  |
|---------|------------------|
| 2004-05 | \$25.7 million   |
| 2005-06 | \$26.5           |
| 2006-07 | \$26.1           |
| 2007-08 | \$26.2           |
| 2008-09 | \$26.5           |
| 2009-10 | \$25.1           |
| 2010-11 | \$23.6 Projected |

## Optimize Operating Efficiency



## Optimize Operating Efficiency

- Practitioners: promote efficiency using standards and benchmarks; reduce or eliminate redundant reporting functions
- Governor: share services with neighboring districts or intermediate school district
- Save Our Students, Schools and State: promote sharing of services

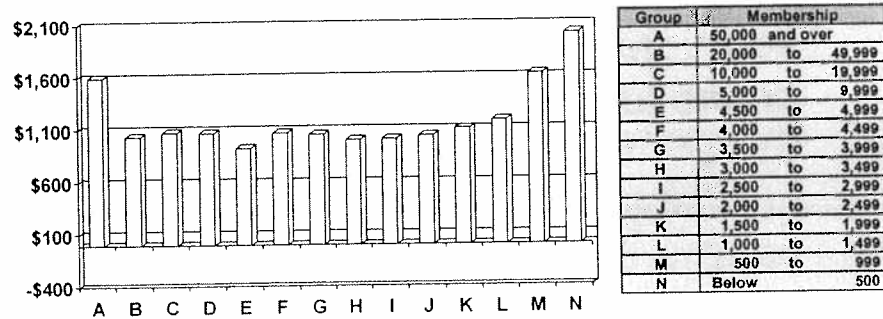
## **Optimize Operating Efficiency**

- **Legislative Commission on Governmental Efficiency:** help school districts achieve savings by providing additional latitude for district consolidation by allowing the State Superintendent the option of consolidation of school districts or intermediate school districts if savings of not less than 5 percent could be documented.

## **Optimize Operating Efficiency**

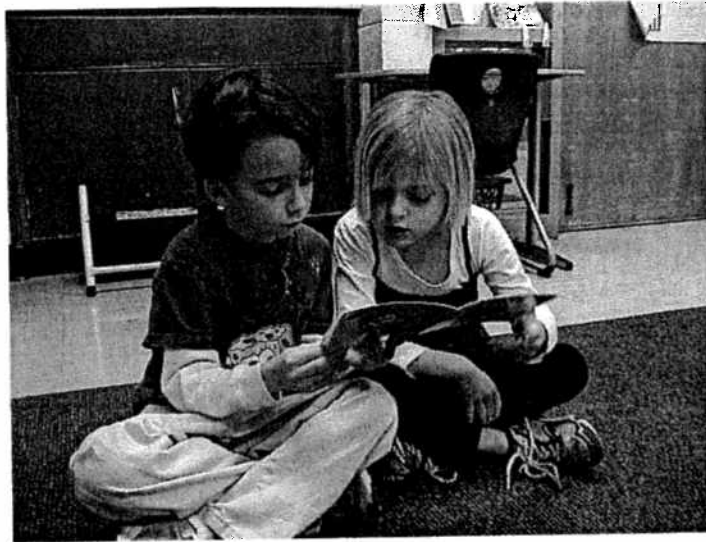
- **While pupil membership has decreased, the total number of school districts has actually increased, due to the recent growth of charter schools. For fiscal year 2009-10, there are 57 intermediates, 551 traditional local school districts, 240 public school academies or charter schools.**

## Administrative Cost Per Pupil by Enrollment Category Michigan School Districts \*



\* Data from the "1014 Report", Michigan Department of Education, Administration and Business Expenses, 2007-08.

## Labor Contracts

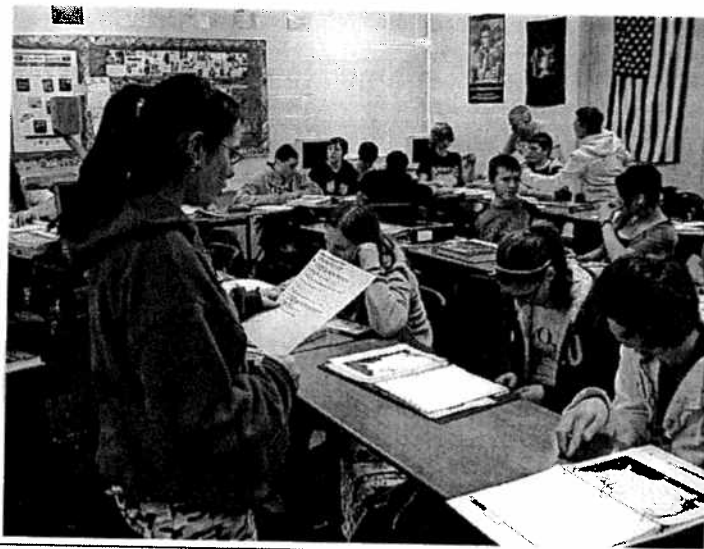




## Labor Contracts

- Legal: Amend The Public School Employees Relations Act of 1979 to prohibit the automatic advancement of salary schedule steps unless negotiated.
- Save Our Schools: Prohibit automatic increases in pay or benefits from going into effect if a contract isn't settled.

## Statewide Health Insurance Pool



### **Statewide Health Insurance Pool**

- Governor: Give option for access to new state cost-effective health-care plan
  - Save Our Schools: Consider statewide health insurance pool for long term; mandatory premium sharing and cap on insurance payments for all public school employees
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### **Statewide Health Insurance Pool**

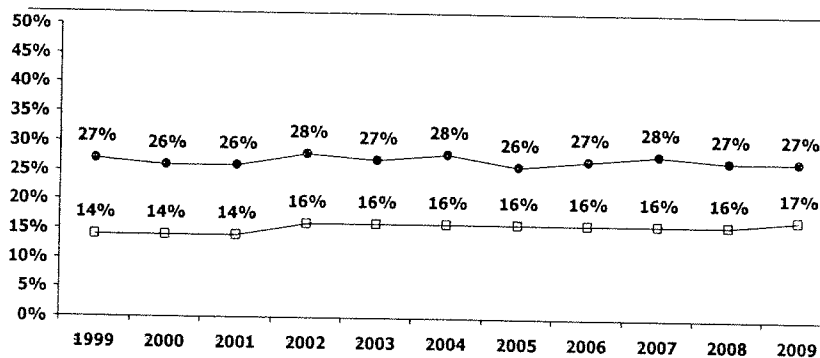
- Legislative Commission:  
Evaluate opportunities to reduce benefit costs for all governmental units by pooling health-care plans across levels and units of government
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## Statewide Health Insurance Pool

### Legislative Commission:

- Increase the employee funded portion of the health benefits package to levels commensurate with public private sector benefits
- Evaluate and implement health insurance plan design changes

Average Percentage of Premium Paid by Covered Workers for Single and Family Coverage, 1999-2009\*

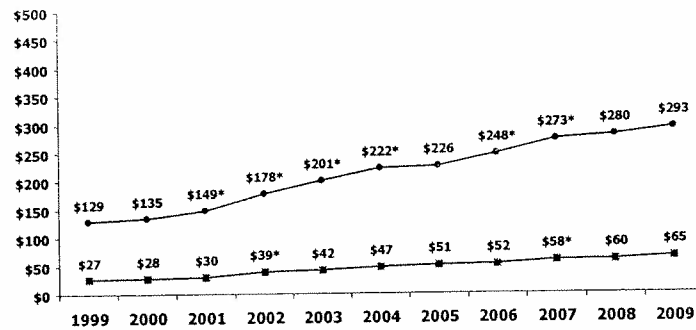


\*Tests found no statistical difference from estimate for previous year shown ( $p < .05$ ).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009.

□ Single Coverage  
◆ Family Coverage

### Average Monthly Worker Premium Contributions Paid by Covered Workers for Single and Family Coverage, 1999-2009

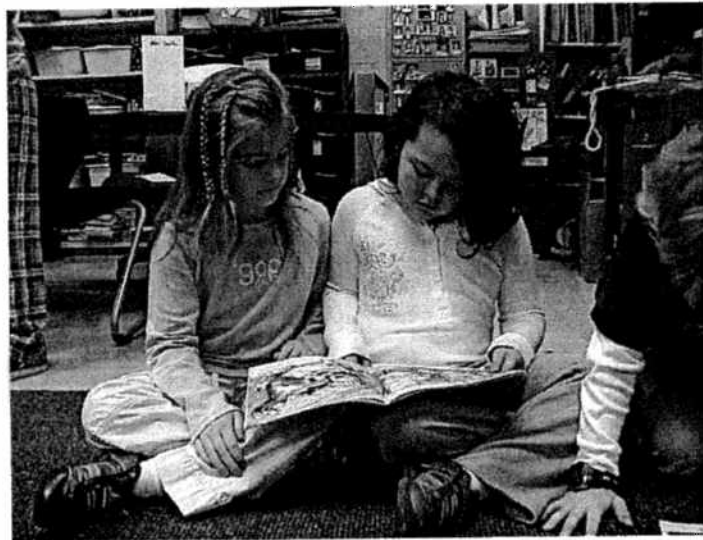


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Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009.

—■— Single Coverage  
—●— Family Coverage

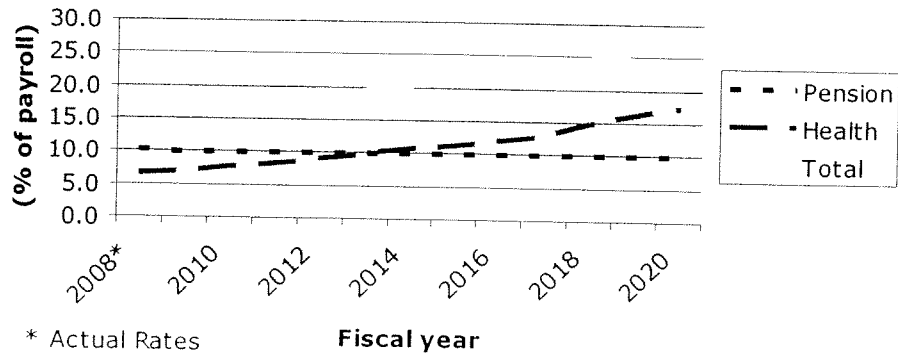
## Overhaul the Retirement System



## Citizen's Research Council

Presentation October 28, 2009

**MPSERS Projected Rates**



## The Detroit News

"Michigan's school retirement system is riddled with loopholes and slipshod policies costing taxpayers hundreds of millions of dollars and driving the state's public education system toward financial crisis. Schools are laying off teachers, scrapping programs and mothballing extracurricular activities to pay for the spiraling pension and health care bills of retirees".....

[www.detroitnews.com/apps/pbcs.dll/section?Category=schools](http://www.detroitnews.com/apps/pbcs.dll/section?Category=schools)

### **The Detroit News**

“The impact could be devastating to public education in Michigan, the only state that makes its schools bear the entire burden of retiree pensions and health care. This year's bill -- an estimated \$1,015 per student -- is more than schools spend on books, buses, computer technology and building maintenance combined.”

### **Overhaul the Retirement System**

- Governor: vision / dental elimination, 3% employee contribution, new hires on defined benefit / contribution plan
- Save Our Schools: Open to discussion, including accepting that current and future employees will need to pay a larger share of costs in order to maintain the long term viability of the Michigan Public Schools Employee Retirement System

## Overhaul the Retirement System

- The Public School Employees Retirement Act of 1979 (Act 300 of 1980) currently states: "Beginning with the 1994-95 state fiscal year, a reporting unit shall contribute the **entire percentage**, determined under section 41(2) of the aggregate annual compensation of all employees who are members under the noncontributory plan...."

## Categorical Funding of Key Instructional Areas



## Categorical Funding of Key Instructional Areas

- Practitioners: categorical funding for non-compensation areas of school budget such as transportation, utilities, etc.



Even IF all schools were  
“equally funded”  
utilization of funding differs!

- Transportation
  - East Grand Rapids: \$89/pupil
  - Romulus: \$786/pupil
  - Low: \$0 / High: \$11,872 / Mean: \$365
- Added Needs
  - Mattawan: \$495/pupil
  - Niles: \$1,907/pupil
  - Low: \$0 / High \$8,938 / Mean: \$1,016

***One size DOES NOT fit all!***

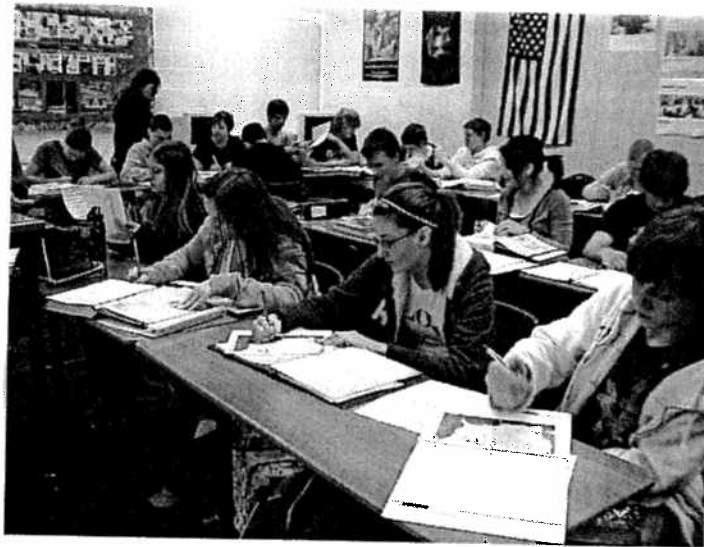


## Unfunded Mandates

- Legislative Commission on Statutory Mandates - \$2.2 to \$2.5 billion identified and reported by Michigan School Business Officials
- Save Our Schools: Develop a plan for compensating schools and local governments for unfunded mandates



## State Revenue



## State Revenue

- Practitioners: Extend 6% sales tax to all services with a possible rate reduction; capture internet sales tax; Graduated income tax; reduce or eliminate MBT; close loopholes; reduce tax preferences for retirement income; 10 year effective life of plan needed.
- Economist Dr. Charles Ballard Presentation
- Governor: Sales and use tax reduced from 6% to 5.5% while expanding base to consumer services

## State Revenue

- Legislative Commission: Conduct a review of options to build a more stable state revenue base / require a regular review of state tax exemptions and/or sunset provisions on new tax expenditures / “As an example, reducing even a portion of the \$35 billion of annual tax credits and loopholes could simultaneously reduce the size of the structural budget deficit and reduce overall corporate, personal income, and or sales tax rates...”

## State Revenue

- Governor, Michigan Business Leaders, and Save Our Schools: Expand the base of the sales tax to services
- Save Our Schools: Eliminate planned reductions in the income tax rate

## State Revenue

- Executive Budget Appendix on Tax Credits, Deductions, and Exemptions Fiscal Year 2010 – total current loopholes of \$35.4 billion will grow to \$36.4 billion this year ([www.michigan.gov/treasury](http://www.michigan.gov/treasury))
- Legislative Commission on Governmental Efficiency ([council.legislative.mi.gov/lcge.html](http://council.legislative.mi.gov/lcge.html))

## Local / Regional Options

- Practitioners: allow restricted local and / or regional option for generating funds
- Save Our Schools: expand the allowed use of sinking funds to include purchases of schools buses, software, and for other approved purposes.
- Revolution and Evolution: Michigan's Proposal A School Finance Reform (2005): Consider changing the enhancement millage statute to allow more flexibility in who would vote and how the proceeds would be used



## Funding Equity



## **Funding Equity**

- Practitioners: --
- Governor: --
- Other: Over a specified period of time, funding equity should be established between the state's school districts by following through with the previously approved formula by the Public Act 137 of 2007 which resurrected the gap-closing concept setting at new target of \$8,433 (allowing for subsequent inflationary growth)

## **EPIC-MRA SURVEY**

**September 2009**

- Only 28 percent of Michigan voters support a cuts-only budget as a solution to the state budget crisis
- 77 percent opposed cutting education
- 64 percent of voters support some level of revenue increases

## W.K. Kellogg Foundation “Hard Times, Hard Choices”

Lansing State Journal February 7, 2010

- Survey – 55 percent agree that “state government should spend more money on programs like education, health care and pensions even if this means increasing taxes.”
- “The public is willing to sacrifice, willing to invest, willing to pay the cost. However, they demand transparency, accountability, and different results.”

## Feedback

